

NEWS: EUROPE

Greek premier in hospital with pneumonia

Papandreou illness unsettles markets

By Kerin Hope in Athens

Mr Andreas Papandreou, Greece's prime minister, was yesterday rushed to hospital with breathing problems after suffering a bout of influenza. News of his illness triggered a wave of selling on the Athens stock exchange and put the drachma under pressure against the D-Mark.

Several hours after he was admitted to the Onassis Cardiac Hospital and put in intensive care, the hospital said Mr Papandreou had pneumonia, his condition was "satisfactory" and that "some improvement could be expected". The statement's delay prompted speculation that his condition was serious.

Mr Papandreou, 76, made a strong recovery after undergoing open-heart surgery in 1988, but has grown increasingly frail since leading the Panhellenic Socialist Movement back to power at a general election two years ago.

Yesterday he was due to chair a meeting of Pasok deputies, at which party rebels were expected to repeat their

demand that he start procedures for choosing a successor. Prices on the Athens stock exchange fell almost 8 per cent as Greek and foreign institutional investors unloaded shares on the news of the premier's illness, but finished the session only 2 per cent lower. Brokers said political uncertainty was driving the market down.

The central bank spent an estimated DM400m (£163m) to support the drachma against the D-Mark. The intervention proved successful - with the Greek currency closing at Dr165.51 compared with Dr166.87 on Friday - but dealers said pressure would resume unless Pasok quickly resolved the leadership issue.

Despite his fragile health, Mr Papandreou has resisted pressure to appoint a deputy premier, governing with the assistance of an informal "kitchen" cabinet that includes his wife Dimitra, who runs his private office.

Earlier this year the prime minister quietly issued a decree appointing Mr Antonis Livanis, minister without port-

folio, as his replacement if he was unable to govern. But analysts say that Mr Livanis, an elderly Socialist who started his political career as a legal adviser to Mr Papandreou, would be unable to keep the unruly cabinet under control.

There are pressing economic policy problems to be settled, with the 1996 budget due to be finalised over the next two weeks. Without Mr Papandreou's support, Mr Yannis Papantoniou, the economy minister, will find it harder to face down populists in the cabinet who are calling for wage restraints to be lifted.

The succession procedure is clouded by controversy. Populist contenders to succeed Mr Papandreou, who are backed by grassroots party organisations, argue that the central committee should elect a new party leader who would take over as prime minister.

The pro-European faction wants Pasok's 170-member parliamentary group to vote for a new prime minister, who would then be confirmed at a special party congress.

No-nonsense diplomacy in Dayton

War lords at Bosnia talks have a reminder of US might, writes Bruce Clark

Dayton, Ohio, the no-nonsense smoke stack city of 500,000 which has played host to the Bosnian peace talks, is an eloquent symbol of the two things which have helped the US re-establish itself as the dominant power in the Balkans: air power and cash.

As the Balkan war lords made their way through the dull, misty landscape to the Hope Hotel conference centre - whose name honours the comedian Bob rather than any spirit of optimism - they never had to look far to spot the rows of F-16s, Starfighters and other fighting machines of the US air force.

The hotel and other buildings at the Wright-Patterson Air Force Base have provided, to quote the local newspaper, a "masonry-walled, plain-vanilla meeting place" which lacks the "warm lobby character" which the city's finer hotels could have offered.

But the sheer size of the base known as Wright-Pat, which sprawls over three counties, must surely have been a sobering reminder of the US military power which lay behind September's bombing campaign in Bosnia and helped bring the parties to heel.

Daytonians pride themselves that almost every innovation



Croatian President Franjo Tudjman (left) with Warren Christopher, US secretary of state, after Mr Tudjman's return to the Bosnian peace talks at Wright-Patterson Air Force Base

in aviation history, particularly military flying, has been produced or refined in their city - from parachutes to wind tunnels to the supersonic fighter, never mass produced, of which a couple of prototypes can be spotted at Wright-Pat.

Nor is the city's flair for the practical and mechanical con-

finer to aviation: the cash register, invented by a small tradesman who thought his employees were cheating, is Dayton's other contribution to humankind.

The seclusion and homespun atmosphere have helped prevent the parties from indulging in the televised histrionics

they developed into a fine art during previous rounds of diplomacy.

The spectacular weekend resignation of Mr Muhamed Sacirbey, Bosnia's foreign minister - who fumed to the cameras that "I am not happy with everything that is happening but that is what compromise is

all about" - was a reminder of how little dramatic news footage there has been in the first 19 days of talks.

Mr Sacirbey, who grew up in the US and plays a mean game of American football, is one of the few delegates for whom the steakhouses and neon lights of Dayton are a familiar sight.

To make the others feel at home a few adventurous restaurateurs have put out notices reading: "Bosnians served free".

But however remote Dayton feels from Bosnia, the end of the cold war - a decisive factor in Yugoslavia's bloody dismemberment - can also be felt in the city.

Thousands of Daytonians, particularly in the field of defence electronics, are facing lay-offs as the US defence establishment is cut; locals say this could create a new class of "poor whites" whose already tense relations with the black community are likely to worsen.

For the moment, all that is just a small cloud on the horizon. If the blandness and apparent contentment of Dayton could be transported in small measure to the Balkans, the region would become a quieter but infinitely less interesting place.

EU's ministers finally in tune on broadcasting

By Emma Tucker in Brussels

Months of bitter argument over whether to impose EU-wide quotas for locally made television programming ended yesterday when ministers agreed to prolong the life of existing European Union broadcasting rules.

A decision to revert to the status quo terminated French ambitions to tighten quotas dictating the content of European broadcasts, but also frustrated German and British plans to scrap quotas altogether.

Channels broadcasting in the EU will continue to have to screen at least 51 per cent European-made programmes, but only "where practicable" - a loophole that allows many broadcasters to ignore the rules.

"All delegations made considerable efforts in order to overcome different positions and points of view," said Ms Carmen Alborch, the Spanish culture minister, who led yesterday's discussions in Brussels.

The decision is a blow to France's desire to limit US-made programmes on European screens. A majority of other member states felt obligatory quotas to be unworkable, particularly as new technology favours the development of "theme" channels.

Lord Inglewood, the junior British culture minister, said: "At the outset the proponents of quotas were riding high, but as the process has gone along the tide has ebbed."

The scrapping of quotas will be an option when the EU's broadcasting regime designed to allow broadcasters to transmit material wherever they like in the single market - is reviewed again, five years after the implementation of the latest revisions.

Aside from the issue of quotas, the only significant changes agreed yesterday

Mr Karel Van Miert, EU competition commissioner, has agreed "in principle" with Luftansa and Scandinavian Airline Systems on the terms of their alliance, an EU official said yesterday. AP reports from Brussels. The chairman of both companies and Mr Van Miert agreed on most of their airline slot allocation problems during a meeting on November 10, but some key issues remained, officials said.

These included the choice of competing airlines to be given slots in Frankfurt, Düsseldorf, Stockholm, Oslo and Copenhagen during the morning and evening rush hours. The EU Commission official said EU experts would meet company officials to work out a formal proposal, which should be voted on by the Commission in late December.

include an extension of broadcasting rules to tele-shopping. A liberal regime will apply to channels devoted entirely to tele-sales, but on other channels it will be restricted to three hours a day.

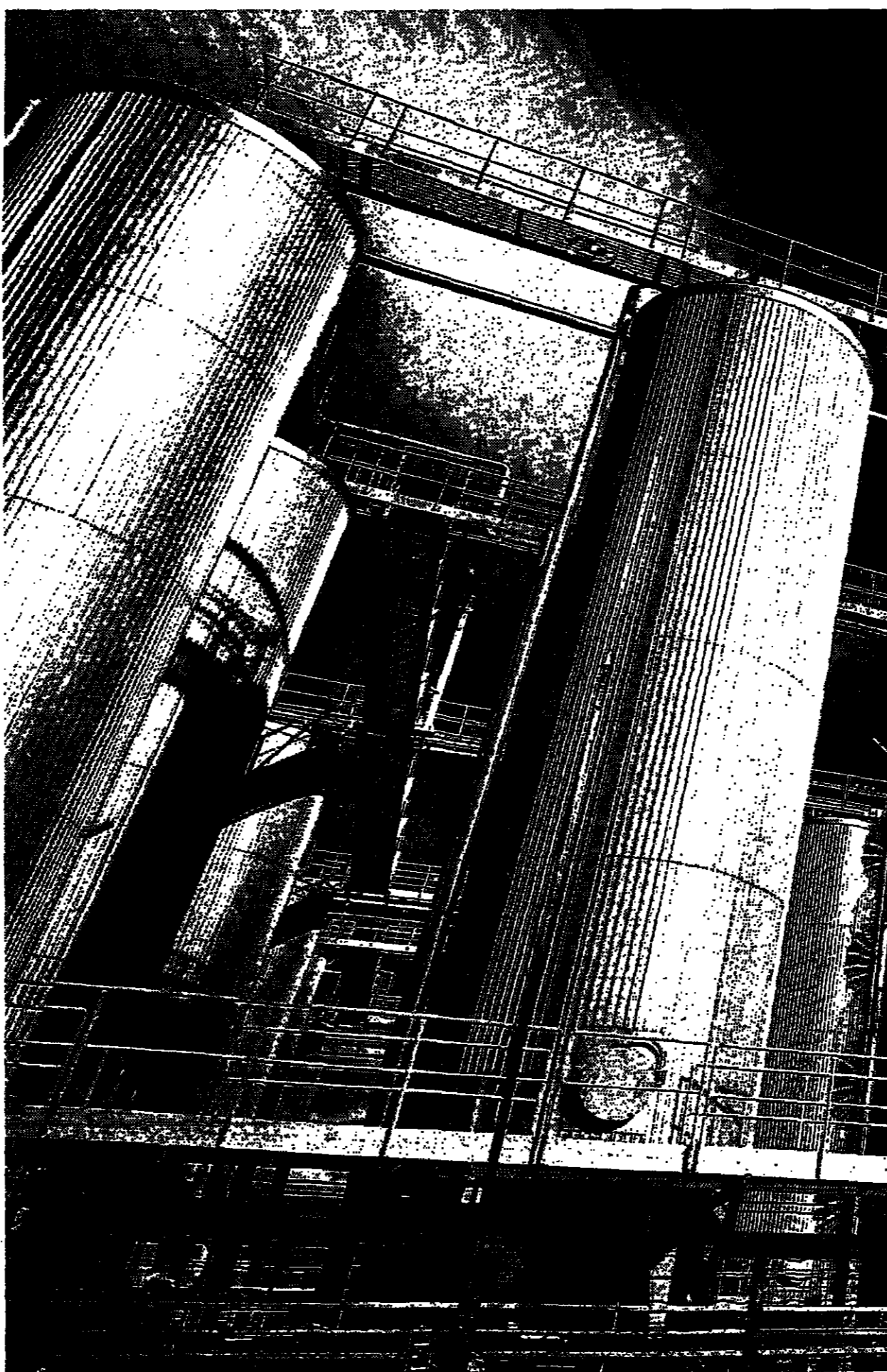
The revisions also clarify which countries have jurisdiction over the content of broadcasts. Ambiguities had led to clashes between member states.

Under the new rules a three-fold test will be applied to establish which member state has authority over a channel's content: where the company's headquarters are located; where the main managerial decisions on programming are taken; and where the bulk of the workforce is located.

Ministers said they hoped these revisions could be adopted before the end of the year.

However, the European parliament has yet to give its opinion. It is due to do so next month.

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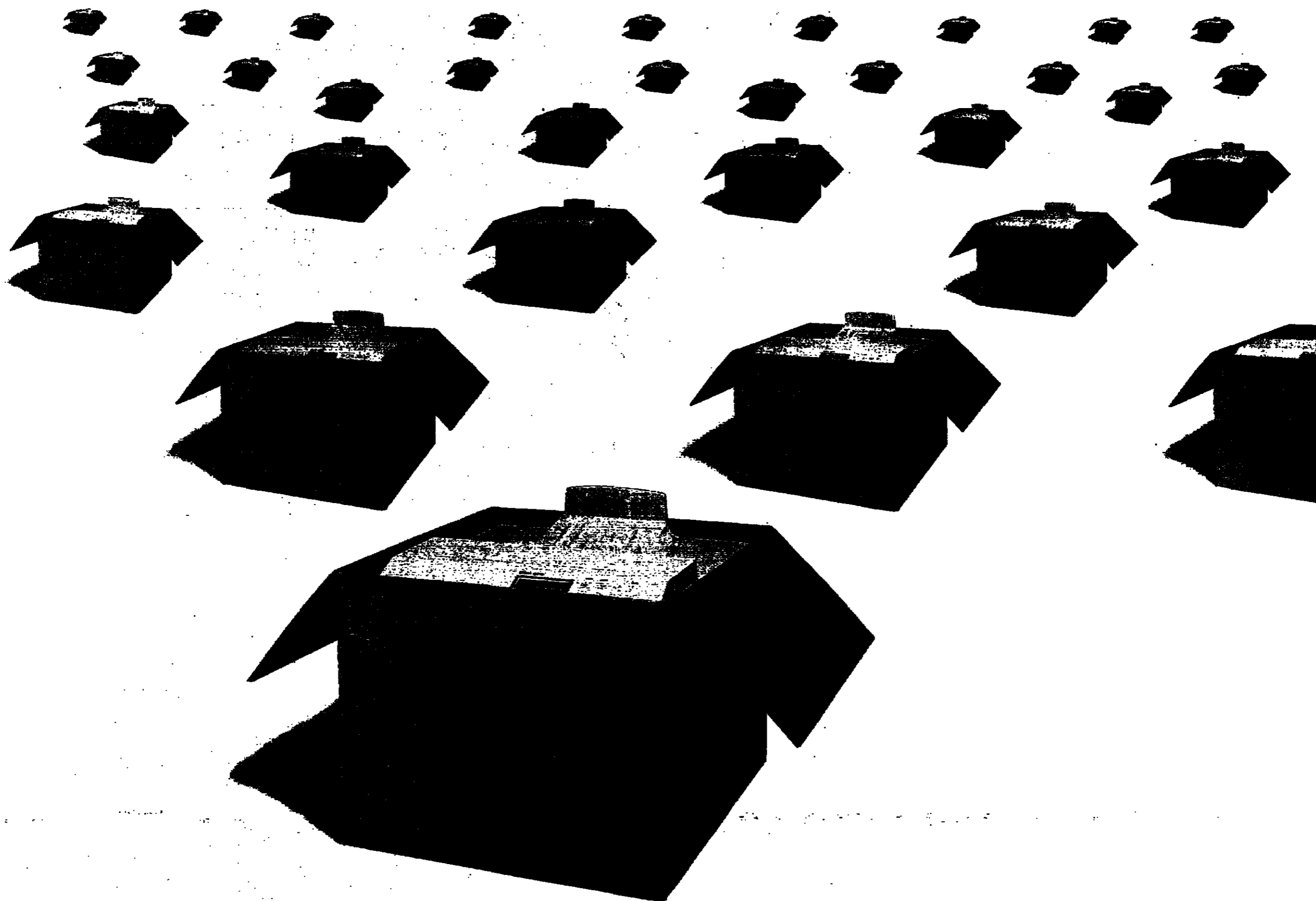
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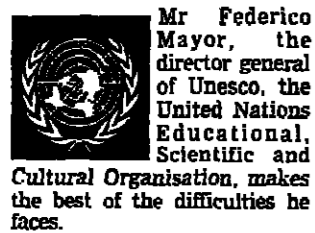


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NEWS: INTERNATIONAL

Unesco eyes future on a tight budget



Mr Federico Mayor, the director general of Unesco, the United Nations Educational, Scientific and Cultural Organisation, makes the best of the difficulties he faces.

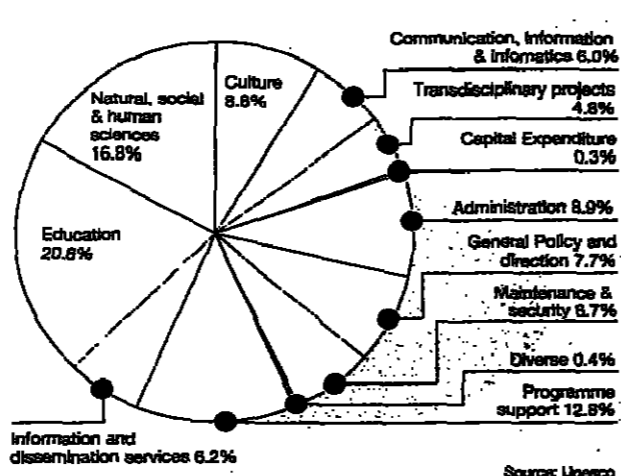
Under the 12-year reign of his discredited predecessor, Mr Amadou Mahtar M'Bow, the organisation turned sharply anti-American and the US retaliated in 1984 by withdrawing. The UK and Singapore followed the next year, depriving the agency of 31 per cent of its contributions.

Yet Mr Mayor, forced to engage in extensive surgery to compensate, puts a positive light on the consequences. "We were obliged before other agencies to undertake a lot of reforms," he says. He plans to publish a report next spring on the management and budgetary lessons he learnt.

Since the mid-1980s, the staffing of Unesco has been cut by a third to about 2,150 and its annual "regular budget" has remained stable at about \$55m (\$54.6m).

Other UN agencies are having to help with finance, writes Andrew Jack

Unesco's budget for 1996-97



since the 1980s, the UK National Audit Office and the US General Accounting Office both carried out reports which failed to find any evidence of corruption.

Mr Mayor is reluctant to criticise his predecessor too

directly. After all, it was under Mr M'Bow that many budget cuts took place. But Mr Mayor has certainly radically changed Unesco's priorities since he took over in 1987.

One of the principal reasons for the US withdrawal was the

so-called "new world information order", introduced under Mr M'Bow, which to many smacked of an attempt by the former Communist bloc and some Third World countries to introduce media censorship.

Ironically, Unesco has placed great emphasis in the last few years, instead, on stressing the importance of media freedom, and the World Press Freedom Committee, vocal in calling for US withdrawal as a result of the old-style policies, is now recommending that the country becomes a member again.

The problems in the past came because the Unesco constitution was not fully respected," says Mr Mayor. "Our first article says that we must guarantee the free flow of information and ideas. This is our basic commandment."

Unesco's best known work has probably been the protection of cultural heritage sites around the world, which now number some 400, and include

such famous activities as co-ordinating the rescue of the Abu Simbel temple in Egypt at the time of the construction of the Aswan dam.

But Mr Mayor argues "the most important monument we must preserve is children", in a reference to his priority on education. He believes that population pressure is the biggest challenge facing the world and that education of women is the best way to cut fertility and ease the problem.

He says his campaign of persuading the world's most populous nations to agree to spend 6 per cent of gross national product on education each year by 2000 is one of his proudest achievements. "Once education improves, there will be less migration, fewer environmental threats, and better conditions in urban slums."

As Unesco commemorates its foundation, he says the most important action is to remind its 186 member nations of the founding principle: that, in the words of the poet Archibald MacLeish "since wars begin in the minds of men, it is in the minds of men that the defence of peace must be constructed."

INTERNATIONAL NEWS DIGEST

SA hails rise in credit rating

South Africa yesterday welcomed the improvement in its sovereign credit rating from Standard & Poor's Rating Group, although it still has not achieved the investment grade rating awarded by two other groups. Mr Chris Liebenberg, finance minister, said the new rating "demonstrates confidence in South Africa's economic policies and political stability following the transition to democracy".

Following a visit to South Africa in August, S & P has raised its long-term foreign currency rating from BB to BB Plus. The long-term local currency rating was BBB Plus. S & P praised the government's disciplined policies but its creditworthiness was constrained "by the formidable challenges of reforming the long-protected economy and ensuring steady reductions in the high budget deficit, prerequisites to the critical objective of significantly raising the sustainable level of economic growth".

Roger Matthews, Johannesburg Observer, Page 15; South Africa survey. See separate section

Israel may bar extremist Jews

Mr Ehud Barak, Israel's interior minister, said yesterday he would review police files to consider barring Jewish extremists from entering the country following Prime Minister Yitzhak Rabin's assassination.

"I may consider preventing the entry of these extreme elements on a case-by-case," Mr Barak said. Under Israel's Law of Return, foreigners who can trace Jewish roots to at least one grandparent can become immigrants and claim Israeli citizenship. But the law gives the interior minister discretionary powers to keep certain elements out to preserve public order. A right-wing Jewish law student shot Mr Rabin at a Tel Aviv peace rally on November 4. At least eight other right-wing suspects were arrested for alleged ties to the murder.

Reuters, Jerusalem

Gaddafi castigates Arab world

Libyan leader Muammar Gaddafi, in a speech reflecting his deepening isolation within the Arab world as well as the west, says he no longer trusts any Arab ruler. "The Arab nation, from the Atlantic Ocean to the Gulf, is now occupied, and not independent. It needs a long fight to free the Arab nation, the land and the honour," Col Gaddafi said in a speech carried by the official Jana news agency at the weekend.

"The Arab rulers have handed over the Arab countries to the enemy. Therefore, we no more trust any ruler," he said in what appeared to be an unprecedented attack on all Arab leaders. Col Gaddafi singled out Egypt, Saudi Arabia and the other Gulf countries, Syria, Morocco, Tunisia, and the Palestinians.

Reuters, Tunis

Boost sought for UN Iraq team

The head of a United Nations team overseeing Iraqi disarmament said yesterday he was touring Gulf Arab states to shore up political and financial support for his mission and end a persistent "headache" about funding. "If we don't get the funds we will have to close our work and that would be very disastrous for security in the region," Mr Rolf Ekens, head of the UN Special Commission on Iraqi disarmament, told a news conference in Kuwait.

The commission, set up after the 1991 Gulf war ended a seven-month Iraqi occupation of Kuwait, is overseeing UN demands that Iraq scrap its chemical and biological weapons and ballistic missiles with a range greater than 95 miles (150 km).

Reuters, Kuwait

Flawed Tanzania election tests donors' faith

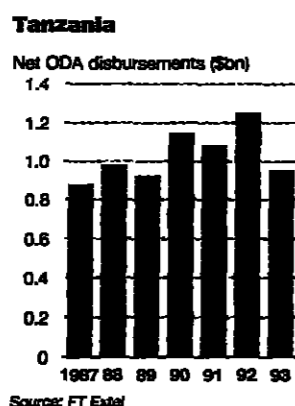
Over the next few days Tanzania will install its first head of state elected under a multi-party system. But Benjamin Mkapa's triumph, a foregone conclusion since much of the opposition boycotted polls at the weekend in Dar es Salaam, is hardly an occasion for celebration.

For Tanzania's experience has shaken faith in the country's capacity to implement multi-party politics, and raised questions about the role of international observers and the dilemma faced by donor nations in danger of turning a blind eye to flawed elections in their enthusiasm for the introduction of democracy in formerly one-party states.

The exercise got off to a bad start on the island of Zanzibar, where counting was marred by statistical anomalies and evidence of tampering with return forms strong enough to warrant a boycott of the ruling party candidate's inauguration ceremony by most diplomats.

On the mainland, the process

Michela Wrong on the limits and dilemmas of backing democracy



Source: FT Data

almost collapsed entirely as the electoral commission, in spite of receiving \$20m in donor funds, failed to get ballot boxes, officials or voting papers to booths on time amid what a Commonwealth group called "chaos and confusion".

The ruling party, Chama Cha Mapinduzi (CCM), argued that

opposition demands for new commission staff meant personnel had no experience of running elections. But the worst problems occurred in opposition strongholds, fueling suspicions that the results had been rigged.

"What has become very clear is that, in a close contest the CCM will not relinquish power," said Professor Rwekaza Mukandala, political science lecturer and head of a monitoring unit. "I don't think there's anyone out there who believes these elections were free and fair."

If, after 30 years at the helm, the CCM was ready to bend the rules to cling to power, 450 observers working under the UN umbrella did little to thwart it.

They prematurely ruled the first stage of voting on Zanzibar "free and fair", and failed adequately to monitor the count. As confusion on the

mainland forced polls to be extended or repeated, most international observers overran their budgets and had to leave, work unfinished.

And as the full extent of what many diplomats privately called a debacle emerged, the UN first kept silent and then issued a bland statement recommending the authorities "correct anomalies".

Some opposition supporters see the ineffectual performance of the international community during the tortuous month-long process as a carry-over of the reluctance to criticise former president Julius Nyerere displayed by many western governments during his time in office.

Having pushed the CCM to legalise party politics, the donors, say local critics, opted to accept the status quo rather than challenge the CCM's exercise in democracy.

Whether the donors, who

provide up to 70 per cent of Tanzania's national budget, will review their position will become clear only once the dust has settled and they take stock of the extent of electoral abuses.

Last year Scandinavian countries, Tanzania's most generous donors, suspended \$35m in balance-of-payments support after revelations that donor-funded foreign exchange schemes were being abused and huge amounts of import duty not collected.

They demanded the prosecution of corrupt government officials and their businessman friends. Opposition leaders such as Augustine Mrema of the NCCR Mageuzi (National Convention for Construction and Reform) party, who won enormous support for his anti-corruption campaign, now want donors to slash aid further, arguing that a party retaining power with such suspect methods is in no

position to eliminate graft.

Last week diplomats were saying it was too early to decide about aid and playing down the extent of the problems.

Officials of the International Monetary Fund said they were waiting for a new government to be named before negotiating a \$300m structural adjustment facility.

But in a sign of what may be to come, the Dutch broke ranks and resumed balance-of-payments support.

Weakening the donors' resolve is the awareness of how desperately needed the aid is. One of the world's seven poorest countries, Tanzania is enjoying something of a mini-boom, with a 3.5 per cent growth rate.

"This fiscal year Tanzania can afford to pay its foreign debts, its civil servants and that's it. There's no money left for schools, hospitals or anything else," says a diplomat. "You don't kick a man when he's down."



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Hawke re-emerges to back striking miners

By Nikki Tait in Sydney

Mr Bob Hawke, the former Australian prime minister, yesterday made a roaring comeback as the working man's champion as he pleaded the case of the country's trade unions in their dispute with CRA, the mining group, before a full bench of the Industrial Relations Commission.

But, after 12 hours of arguments, the arbitration body said it was adjourning, and would leave the matter unresolved until today. The nation's coal miners remained out on strike in support of employees of CRA's Comalco subsidiary at Weipa, northern Queensland, where it has large bauxite operations.

Efforts were under way by the Australian Council of Trade Unions - under IRC pressure - to persuade the striking miners to rethink. Many time employees, who had also gone on strike in a show of solidarity, went back to work on Sunday.

The re-emergence of Mr Hawke - one-time president of the ACTU, but portrayed as a bitter and tarnished figure since surrendering the prime minister's job nearly four years



Hawke: virtuoso performance

ago - came in a virtuoso performance, played to several hundred people.

His forceful advocacy won applause from hard-core Labor supporters, and seemed guaranteed to undermine the position of Mr Paul Keating, the current prime minister. Mr Keating predicted last Thursday that the Weipa dispute was within hours of being solved - only to see it escalate into a national stoppage.

In his three-hour presenta-

tion, Mr Hawke invoked the shearer's strikes of the late 1890s, words of Abraham Lincoln, and thoughts of Adam Smith, the British economist, to bolster his case that Australian workers should have the right to bargain collectively, and should not be discriminated against for so choosing.

"What is at stake is much more than the resolution of an industrial dispute. What has been involved here is nothing less than an attempt by the company to overturn, not just the industrial relations system, but the social fabric of Australia," he claimed.

In reply, lawyers for CRA's Comalco subsidiary, which manages the bauxite mining operations at Weipa, argued that the desire to sign workers to individual staff contracts, rather than reach collective agreements, rested on a belief that this improved the way work was performed - and hence justified a higher wage.

The minority of Weipa employees who have not signed individual contracts claim that they are paid up to A\$20,000 (US\$15,000) a year less for similar work than colleagues who signed individual contracts.

E Asian currency war chest set up

Simon Holberton on a new step towards central bank co-operation

EAST ASIA'S MONETARY MIGHT

	Emcap	EU
Deposits in US\$	1,728	369
GDP - 1993	\$7,815	\$6,171
Population (millions)	57.9	1.1
National saving rate (average)	33.0%	18.2%
Foreign exchange reserves	\$265bn	\$243bn

*Calculated on the basis of purchasing power exchange rates

Emcap = Executive Meeting of East Asia and Pacific Central Banks.

Members: Australia, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand

Source: Reserve Bank of Australia

unity of purpose still has some way to develop. This was driven home by the absence from the meeting of Singapore ("they couldn't find time to come," Mr Yam said) and the exclusion of the Philippines from the initial tranche of "repo" agreements. The latter omission - which Mr Gabriel Singson, the Philippines central bank governor, says will be remedied by the end of the year - also raised questions in the minds of economists about the exercise.

"It is noteworthy that the weakest central bank [the Philippines peso] has been under considerable pressure recently in the region was not invited to join, given that they were pushing for these agreements in the first place," says Mr Simon Ogun, economist at SBC Warburg, an investment bank, in Hong Kong.

In spite of the scepticism in the markets, the growing attractiveness of Asia as an investment location for professional western investors has sensitised Asia's central bankers to the need for more co-operation. Many were unsettled, and annoyed, at the beginning of the year when problems with the Mexican peso overflowed to Asia and many of the region's currencies suffered speculative attacks.

Although the participants at the meeting yesterday took some pride in the fact that they held between them some \$403bn of reserves, their communiqué noted that in order to "maintain currency stability and improve the integrity and stability of the banking system" there was a need for closer ties.

Many central bankers would argue, however, that there is

more to regional co-operation than currency market intervention, even if the arrangements grew out of Asia's dose of Mexican fever at the beginning of the year. Yesterday Mr Yam said there were many areas of mutual interest which needed investigation and a co-ordinated policy approach. He cited banking regulation, the development of Asia's capital markets (particularly the debt market), and what he called "financial infrastructure", such as the introduction of a "real time" bank payments system, which would reduce credit risk by allowing immediate electronic settlement.

Mr Yam noted that Asia had both high levels of savings and a big demand for foreign investment. "Are financial markets, banks, and equity markets adequately performing the role of channelling savings into investment? Perhaps financial markets are not as developed as they are in the UK or New York because there is a lack of market integrity. These are some of the things we want to talk about."

Mr Bernie Fraser, governor of the Reserve Bank of Australia, and Mr Yam are believers in a more formal structure in which central bankers can talk about and plan initiatives of common interest. In September

Mr Fraser suggested such a multilateral institution could be modelled on the Basle-based Bank for International Settlements, which groups the central banks of the Group of Ten leading industrial countries plus Switzerland.

The reasons put forward yesterday by bank governors for greater regional co-operation bore more than casual resemblance to those advanced by Mr Fraser. What was lacking, however, was his advocacy of an institution in which this activity could be pursued.

Within Asia the inelegantly named Executive Meeting of East Asia and Pacific central banks (Emcap), first established by a Bank of Japan initiative in 1991, may fit the bill. It comprises most states lying between Tokyo and Sydney - with the exception of Taiwan, Vietnam and Brunei, but including China and Hong Kong - and appears to have developed credibility among participants.

Central bankers discussed this yesterday, but reached no conclusions. Mr Yam said the option of existing co-operative arrangements into a multilateral institution - provided there were safeguards against it becoming a large bureaucracy - had not been ruled out. Lessons from Asia, Page 14

ASIA-PACIFIC NEWS DIGEST

Japan and US agree on troops

The Japanese and US governments are committed to maintaining troop levels in Japan to preserve regional and global security, a draft joint statement indicates. The document, due for release in Tokyo yesterday but delayed because President Bill Clinton cancelled his visit, specifies no cut in the US military presence on the southern island of Okinawa, which hosts about three quarters of US military facilities in Japan.

The leak of the draft could unsettle the fragile coalition of Mr Tomiichi Murayama, the prime minister, which has been under pressure to reduce the military presence in Okinawa after the alleged rape of a schoolgirl by US servicemen. The statement stipulates that 100,000 US troops be maintained in east Asia, including 47,000 in Japan, despite the end of the cold war. Mr Joseph Nye, US assistant defence secretary, confirmed in Tokyo that a review of bases in Okinawa would give priority to amalgamation and consolidation within the island rather than transferring them. *Kyodo and Reuters, Tokyo*

Arabs suspected over bomb blast

Pakistani officials were yesterday viewing Arab gunmen based in the country's North West frontier province as prime suspects in Sunday's bombing of the Egyptian embassy in the capital, Islamabad. As Egyptian security staff arrived to investigate, immigration officials were keeping a close eye on Egyptian nationals leaving Pakistan.

The blast has come as a shock to Pakistan's security establishment. Many officials had considered it virtually impossible for anyone to bring up to 800 pounds of explosives - the amount used in the bombing - into Islamabad.

During the past two years the government of Ms Benazir Bhutto, the prime minister, has tried to project Pakistan as a "moderate Islamic state". Hundreds of Arab gunmen have been forced to leave the country, while up to 20 have also been extradited to face criminal charges in other countries. In the past many gunmen have crossed into Afghanistan and sought protection from one of the many Islamic mujahideen groups in that country, only to return to Pakistan when the pressure has eased. *Farhan Bokhari, Islamabad*

Sri Lankan troops enter Jaffna

Sri Lankan government troops yesterday marched into the Tamil rebel stronghold of Jaffna for the first time in five years, after a month-long offensive that has left thousands dead and wounded. Five soldiers and at least 40 rebels were killed in the day's fighting over Sri Lanka's third largest city, the military said. A division, including commandos and the elite Rapid Deployment Force, fought their way into the city. The government hopes the fall of Jaffna will make the rebels resume peace talks that were broken off in April. The rebels have been fighting for 12 years for their own territory. Most of the city's 120,000 Tamil civilians have fled in the last three weeks. *AP, Colombo*

Hanoi improves take-up of aid

Vietnam more than doubled its use of foreign aid last year, reflecting greater efficiency in planning and carrying out projects, the United Nations Development Programme said yesterday. A total of \$307m worth of aid - mostly in the form of low-interest loans - was spent in 1994, compared with \$287m in 1993, and the UNDP projected that aid use would reach \$369m this year.

Governments and international institutions such as the World Bank gathered in Paris in 1993 and again in 1994 to assess Vietnam's progress in introducing free-market economic reforms and co-ordinate their pledges of financial support. Each year, however, Vietnam has failed to use all the resources offered because domestic red tape has slowed the implementation of projects.

The foreign donors pledged \$1.86bn at the 1993 Paris conference and \$2bn in 1994. They are scheduled to meet again on November 30 to set aid goals for the coming year. *AP, Hanoi*

■ Mr Don Brash, Reserve Bank of New Zealand governor, said the country's current account deficit appeared to have peaked at 4 per cent of gross domestic product and that recent increases had in part been the result of strong capital inflow from overseas. *Reuters, Wellington*

■ China's construction industry is forecast to grow at an annual rate of 12 per cent over the next five years and the government will further ease curbs on foreign investment in the sector, Mr Wu Zhilai of the Construction Ministry told the sector. Mr Wu Zhilai of the Construction Ministry told the sector. *Reuters, Beijing*

■ Cambodia's annual rate of inflation fell to 6 per cent in October, and an official of the country's National Bank said it believed it would remain low for the rest of 1995. *Reuters, Phnom Penh*

■ The Tokyo Stock Exchange and the Japan Securities Dealers Association yesterday reprised the Tokyo branch of Merrill Lynch for unauthorised stock trading. Earlier this month the Finance Ministry ordered the branch partially to suspend operations for two days. *AP, Tokyo*

■ The European Union and Nepal yesterday signed a trade and co-operation agreement that the Himalayan nation hopes will help it deal with an array of economic and environmental problems. *AP, Brussels*

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Unions order disruptive action at GM factories

By Robert Taylor,
Employment Editor

Vauxhall Motors, the British offshoot of General Motors, refused last night to improve a 3.5 per cent pay offer in spite of an overwhelming vote by its manual workers in favour of a strike.

Trade unions at the company's factories in Luton, about 100km north of London, and Ellesmere Port in north-west England, will impose a ban on overtime work and a two-

hour out in the basic working week from November 28.

Mr Tony Woodley, the Transport and General Workers Union national officer for the car industry, said: "Our members expect us to apply pressure on the company to secure an improved offer. We are anxious to avoid an all-out strike. The action we are taking at this stage is the minimum considered appropriate in response to the massive vote for a strike." The unions are demanding an 11 per cent pay rise and a cut in

the basic working week from 38 to 37 hours.

In the postal ballot organised by the TGWU and the AEU craft union, 5,201 workers (78.4 per cent) voted for strike action and 1,425 (21.6 per cent) voted against it. While 5,971 voted for action short of a strike, 884 voted against. The turnout was 92 per cent.

Mr Bruce Warman, Vauxhall's industrial relations director, said last night: "We are not going to increase our pay offer or make a cut

in the working week. It is time to face reality. There are times and this is one of them where you have to be prepared to take it. We are not going to make any big bold changes in our offer."

He said the total package was worth 5 per cent in the first year with an extra day's holiday and a car sale scheme on top of a 3.5 per cent basic pay rise. Workers would get a pay rise equivalent to the retail price index rise plus 1.5 per cent next November in the second part of

the deal.

Vauxhall is determined to resist any cut in working hours. "We believe this demand is being driven by the outside agenda of the unions," said Mr Warman. "It would hit our competitiveness and we will not give way on this."

Vauxhall's management will be formally told of the union's decision at noon tomorrow under the law covering industrial action that requires that companies must be given seven days' notice

of any planned disruption.

Despite Vauxhall's statement, union negotiators are hopeful the company will improve its offer substantially. They point to Ford which has proposed a 4.75 per cent basic wage increase for its manual workers although union negotiators rejected that offer last week.

Shop stewards from all the Ford plants are due to meet tomorrow. They may decide to proceed with a strike ballot of the company's 22,000 manual workers.

Labour backtracks on Murdoch criticism

By Robert Peston and
James Bütz at Westminster

Mr Tony Blair, leader of Britain's opposition Labour party, last night quashed a call from a senior member of his team for BSkyB, the satellite broadcaster controlled by Mr Rupert Murdoch, to be investigated by the Monopolies and Mergers Commission.

Mr Richard Caborn, Labour's shadow competitiveness minister, had earlier in the day written to the deputy prime minister, Mr Michael Heseltine, calling for the probe. However, he was acting without the knowledge of Mr Blair and Mr John Prescott, the party's deputy leader, in whose team Mr Caborn works. "The letter is inoperative; it does not represent party policy," a Labour official said.

The incident is the latest indication of the extent to which all important policy-making is controlled by Mr Blair's office.

It is also likely to be interpreted as further evidence of Mr Blair's reluctance to wage war against Mr Murdoch, whose News Corporation conglomerate owns the leading share of the UK national newspaper market.

"Dick pretty quickly realised that he had dropped a clanger," said a party official. "He asked us how he could put it right."

In the summer, Mr Blair angered many of the party's traditionalists - who cannot forgive Mr Murdoch for the anti-Labour tenor of his newspapers' coverage in the run-up to the last general election - by flying to Australia to address a News Corporation management conference. Mr Caborn had been taking a close interest in BSkyB as chairman of the commonsense trade and industry committee until last month, when he joined Labour's frontbench team. At the heart of his concern about BSkyB is its role as a "gatekeeper" for access to the UK cable and satellite sector, as the dominant distributor and because of its exclusive programming arrangements.

Major demands answers on EU single currency

By Robert Peston,
Political Editor

Prime minister John Major will battle to prevent a single European currency being created in 1999 unless the European Union resolves uncertainties about the consequences of only a small core of countries participating in monetary union.

In a speech designed to gloss over the split in his own party about whether the UK should participate in monetary union, Mr Major posed a series of questions which he said must be answered "before a single currency goes ahead".

He said at the annual Lord Mayor's banquet in London that it was "accepted across Europe" that only a minority of EU members would be ready for monetary union in 1999.

"The price of error would be too high for Europe", he said, if a small group of countries then merged their currencies without examining the problems created by a two-tier monetary Europe.

He listed four issues which need to be resolved:

- How would a single currency and the EU currencies outside co-exist?
- How would Europe's institutions serve the interests of those which adopted the single currency and those who did not?
- What would be the implications for the single market of competitive devaluations by

those outside the monetary core?

● What would be the effect on the EU budget?

His speech may anger other EU governments, if they see it as an attempt to jeopardise the monetary union project. Some resent his provocative approach to the single currency debate, since the UK is one of only two EU countries which does not have to participate in monetary union, whether or not it meets the convergence criteria.

There were also signs last night that Mr Major's public airing about the dangers of a premature merger of currencies failed to placate the Eurosceptic right of his own party. "What he failed to address is whether he personally favours a single currency", said a rightwinger.

An EU heads of government summit in Madrid next month is expected to discuss monetary union and may decide the name of the new single currency.

Mr Major reiterated his determination that public spending should fall as a percentage of national income "below 40 per cent" from 42 per cent now. He said that "we are doing well" by spending relatively less than other European countries, but "not well enough". He pointed out that "both America and Japan spend less and tax less than we do".

The economy: Construction industry weakness blamed as estimates revised downwards

Growth figures highlight slowdown

By Graham Bowley
and Alison Smith

The British government was yesterday handed fresh evidence of a slowdown in the economy when estimates of growth in the third quarter of the year were revised downwards.

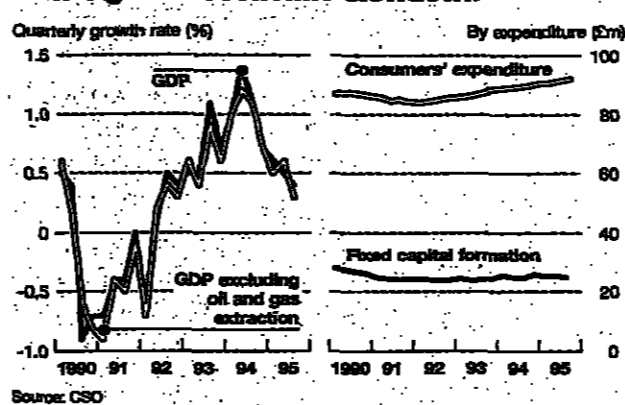
The Central Statistical Office said the economy, excluding oil and gas extraction, grew by only a seasonally adjusted 0.3 per cent between the second and third quarters of the year.

This is the lowest quarterly rate of growth since the final three months of 1992 and down from original estimates of 0.5 per cent growth in the third quarter.

Weakness in the building industry accounted for most of the downward revision in GDP: construction industry output fell by 1.4 per cent between the second and third quarters.

Separate figures also showed

New signs of economic slowdown



that new home loans made by building societies reached their lowest level for more than 15 years while mortgage lending by banks, whose market share has been increasing, also fell.

The figures will add to the pressure on Mr Kenneth

Clarke, the chancellor, to boost the economy by cutting taxes at next week's Budget and possibly also lowering interest rates soon.

Mr David Mackie, an economist at JP Morgan, the US bank, said: "This tells you that

interest rates are coming down. The Bank of England is going to find it very hard to resist lower interest rates."

The Treasury said that the figures showed that the recovery had clearly slowed but that the fundamentals remained in place for sustained healthy growth.

However, some economists warned that the pattern of growth boded badly: much of the growth in the third quarter stemmed from a build up in stocks of unsold goods; if companies ran these down in the coming months, activity could slow further.

Further signs of weakness came with figures showing that new mortgage lending last month was significantly lower than in September.

New net lending by building societies was just £295m in October - less than half its September figure. This was the sharpest month-on-month drop

since the autumn of 1992. Separate figures for mortgage lending by the high street banks also showed that new business was falling.

The fresh evidence of gloom is likely to intensify calls from Tory MPs for special help for the housing market in next week's Budget. However, there is no sign that the Treasury is departing from its earlier belief that maintaining low interest rates is better for the housing market than, for example, extending mortgage tax relief or helping first-time buyers.

This was partly offset by a rise in consumer expenditure of 0.7 per cent in this period.

Measured overall the economy, including oil and gas, grew by 2.1 per cent in the year to the third quarter, compared with an original estimate of 2.4 per cent. This was sharply down from the annual growth in the same quarter of 1994 of 4.3 per cent.

Consumer confidence remains subdued

By Gillian Tett,
Economics Correspondent

In spite of the possibility of tax cuts, there is still little sign of any upturn in UK consumer confidence, a survey yesterday suggested.

The survey, conducted by the research group GfK for the European Commission, suggests there has barely been any change in consumer sentiment over the past six months.

Comparing this confidence level with earlier periods is difficult because GfK took over the running survey (previously conducted by market research organisation Gallup) in the summer, resulting in a break in data.

But rough comparisons suggest that confidence is better than it was during much of last year - albeit still down from the levels of previous recoveries.

Slightly more of the 2,000-odd households surveyed in November expect their financial situation to deteriorate over the next year than improve. Fifty six per cent of households believe that their finances will remain unchanged - the same proportion as in October.

However, 16 per cent expect them to get a little worse - the highest proportion for six months.

The proportion of households expecting to make a major purchase has also deteriorated slightly - 33 per cent of people think now is a bad time to buy a large item, the highest level for six months.

The amount of money people plan to spend over the next 12 months has barely changed, with only 12 per cent anticipating higher expenditure.

Meanwhile, almost half of the people surveyed said that they were "just man-

aging to make ends meet", with only 4 per cent saying that they were managing to save "a lot".

The public's perception of growth has barely changed, in spite of the intense debate in the City about any broader "slowdown". Forty-two per cent believe that the situation will remain unchanged, while only 18 per cent think it will get a little better.

However, the low inflation message does seem to be hitting home, with people thinking that prices have grown slightly more slowly over the last year than in the summer.



Can you light up the sky without clouding the air?

Natural gas - affordable, safe and available - is an increasingly popular choice for driving turbines that generate electrical power all over the world. Although it

burns relatively cleanly, combustion does produce nitrogen oxide, implicated in acid rain. Abatement techniques have reduced emissions, but heightened awareness among the industrial nations continues to generate tighter legislative controls and the development of ecologically-sound power plants.

Conventional methods of controlling emissions are costly and dampen efficiency. However, ABB research has now developed a way to burn them off. It is a total solution, reducing pollutants while maintaining efficiency, thus consuming less fossil fuel. ABB has installed its innovative "EV-burner" in the Midland Cogeneration Venture, a joint project to produce power for the Dow Chemical Company and the State of Michigan, USA. At full power load, this plant is now producing emission levels well below the world's most stringent requirements.

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NEWS: UK

Privatisation of rail freight network 'The government appears to be going ahead with a unified sale'

US companies bid for heavy-load franchise

By Charles Batchelor,
Transport Correspondent

Government efforts to break up the state rail network's freight operations risk being frustrated by the narrow range of bidders from the private sector. The aim of the break-up is to increase competition.

One of the US companies which is bidding for all of British Rail's heavy haul freight business has also made an offer for Rail Express Systems, the BR subsidiary which carries the Royal Mail.

At the same time, a management team which is bidding for Freightliner, which runs container trains between seaports

Who wants what?

Targets: Rail Express Systems

Bidders:
Management buy-out team
Wisconsin Central
MCB team of
Freightliner managers

and inland rail terminals, has also put in a bid for Rail Express Systems.

The Rail Freight Group, which represents freight operators and their customers, has urged the transport department to retain competition for the benefit of customers. "Many customers feel that BR

Trainload Freight

3 management buy-out teams
Wisconsin Central
First RailFreight

has soaked them in the past and are opposed to a monopoly being continued when the railway is privatised," said Ms Julia Clarke, director of the group. "We are concerned that the government appears to be going ahead with a unified sale."

There are five bidders for

British Rail's Trainload Freight companies, which move cargoes such as coal, steel and aggregates. They are three management buy-out teams; the Wisconsin Central Transportation freight railroad; and First RailFreight. The Omnitrax freight railroad company of Denver, Colorado, and Peter Klewitt Sons, a large US construction group, are the majority shareholders in First RailFreight.

Omnitrax operates 12 short-haul freight-only lines on 2,400 km of track. It has revived defunct services and has invested in trackside handling facilities such as grain elevators to persuade customers to

switch from road to rail, said Mr Dwight Johnson, president.

The three bidders for Rail Express Systems are Wisconsin Central, a team of RES managers, and MCB, a team of former managers from the Freightliner group which is also up for sale. The MCB team are also bidding for Freightliner itself.

The are concerns that the Trainload Freight businesses, with combined sales of £560m, are too large and too complex for US operators with no experience of operating in the UK, where freight shares track with very busy passenger services. Wisconsin, which recently acquired New Zealand Railway, had turnover of

\$311m in 1994. Omnitrax claims to be the largest privately owned US freight company. It is part of The Broe Companies, a holding company with property and electronics interests.

Rail Express Systems runs travelling post offices and other specialised trains which carry 30 per cent of all Royal Mail letters.

The first sign of difficulty in attempts to break the freight railway into smaller units appeared last month when it emerged that management buy-out teams from the three Trainload Freight companies were being encouraged to bid not just for their own business but for the other two as well.

Performance of schools Teachers' trade unions attack government league tables of examination results

Education in England 'increasingly polarised'

By John Authers in London

Government annual performance tables for schools, published in detail for the fourth time today, brought fierce criticism that they were making English education increasingly polarised.

The proportion of 16-year-olds gaining five GCSE passes of at least grade C, the traditional requirement for moving on to the sixth form, increased slightly for the third year running from 43.3 per cent to 43.6 per cent. Sixteen is the earliest age at which pupils are allowed to leave school.

But the proportion failing to gain even one pass at the lowest grade (G) also rose - from 7.7 to 8.1 per cent. In 1993 only 7.0 per cent of school-leavers had no

qualifications. Mr Peter Kilroy, the opposition Labour party's shadow schools minister, said: "There is a twofold gap between the top and bottom 20 per cent of GCSE results. We clearly need to do more to level up the standards of those getting low grades or no grades."

He criticised the government for failing to publish data on whether schools were improving. The government

said the tables were helping to make progress towards national targets on education and training. Teachers' trade unions said the indicators were "too crude", "flawed" and "failed", and attacked the expense they involved.

However, Mr Peter Smith, general secretary of the ATL teachers' union, said the tables had identified "two pressing problems - an increasing number of children who leave

qualifications at credit level - treated by ministers as an important yardstick - has grown by 4 per cent since 1993.

A total of 51 per cent of 16-year-olds gained at least five Standard Grades at the top three levels.

This is still far short of Scotland's target - that by the end of the decade 85 per cent of 19-year-olds should have reached this level.

school with no qualifications and the out-performance of boys by girls."

figure does not include special schools for children with special needs.

Most are maintained by their local authorities, but three are grant-maintained, having opted out of their council, and five are church foundations.

Some of the schools with the poorest showing on this statistic still saw a healthy proportion gaining at least five Cs, suggesting that able children might receive more attention. There were 14 schools where 20 per cent or more left with nothing, while at least 20 per cent of children gained five Cs.

The row over polarisation in the state system deflected attention from the division between the independent and state sectors. This showed a strong out-performance by

fee-paying schools, with 77.53 per cent gaining at least five Cs compared with 40.24 per cent in local authority schools, and 53.76 per cent in grant-maintained schools which include most grammar schools.

When measured by their ability to gain at least some qualification for every child, the independent schools were less marked, with 6.94 per cent of their pupils failing to get at least one G. The equivalent figure for council schools is 6.99 per cent.

Girls' schools strongly out-performed boys' schools, confirming a long-running trend. In local authority schools, 63.01 per cent of girls' school pupils reached the five C threshold, against 45 per cent in boys' schools.

Diana show will bring more than \$1m to BBC

PA News Reporters in London

Cash payments to the BBC from outside the UK for the right to broadcast last night's interview with Princess Diana are thought to have exceeded £1m (\$1.66m). Broadcasting organisations in at least 12 countries have bought the rights, with the biggest payment coming from the ABC network in the US. The interview, broadcast in Britain in the BBC's Panorama series, has also been sold in Canada, Japan and Germany.

No details were released to buyers or the viewing public about the princess's comments, and there was feverish speculation in the weekend press in Britain that she would refer to the state of her marriage to the Prince of Wales and to his relationships with other women and hers with other men.

In France the programme has been bought by the national TF1 network, but a bid from its rival Canal Plus was withdrawn because the film was shown last night on BBC satellite and cable channels.

Mr Geoff Crawford, press adviser to Princess Diana, said yesterday that he had decided to stand down from the job. His move came after she arranged her interview with the BBC without informing staff at Buckingham Palace. Mr Crawford, an Australian government official, will remain in the palace staff.

Editorial comment, Page 15

Few legal jobs for ethnic students, study indicates

By Robert Rice,
Legal Correspondent

Entry to the legal profession in the UK still depends on money, race and background, according to research published yesterday by the Law Society, the governing body of the solicitors' (lawyers with the broadest range of advocacy and other work) profession in England. The study, which has followed the progress of 2,000 students since 1992, shows that ethnic minority students still face the biggest barriers to a career in the law.

The society says financial problems are the principal reason why many students fail to become lawyers. Around 75 per cent of those who had taken the solicitors' and barristers' finals courses were in debt. Barristers, who are briefed by solicitors, usually appear only in higher courts. Average debt

UK NEWS DIGEST

Treasury may scupper London rail link project

CrossRail, the £2.1bn (\$3.3bn) project to build an east-west rail link under London, is threatened by a Treasury attempt to restrict funding, said the Corporation of London (the municipal authority for the City of London) said. A report on CrossRail, now being studied by transport secretary Sir George Young, is positive in its conclusions about the project. But backers of CrossRail fear its funds could be cut as part of the present budget review.

The project needs £1bn a year to maintain the team of engineers and planners involved and will require a further £5m to take it through parliament. The CrossRail team hopes to put a draft order before parliament in March to start the procedure under the Transport and Works Act to approve the scheme. CrossRail, linking Paddington station to the west and Liverpool Street in the east, would bring Heathrow airport within 26 minutes of the West End and 30 minutes of the City.

Charles Batchelor, Transport Correspondent

Fines set on illegal workers

Employers will face a fine of up to £5,000 (\$7,850) if they offer a job to an illegal immigrant without checking that the employee is entitled to work in the UK, Mr Michael Howard, the home secretary, announced yesterday.

In a consultation paper being sent to employers' organisations, Mr Howard said the government believed that the 10,000 people caught working illegally last year represented "only a small proportion" of the total problem. The consultation paper discloses that under the controversial asylum and immigration bill, employers could be convicted of employing illegal workers if they fail to make one of several specified checks.

The checks include asking to see potential employees' National Insurance numbers, birth certificates or passports, or certificates of registration or naturalisation as British citizens. Employers who fail to undertake at least one of the checks would have no defence against a charge of employing an illegal worker. However, the consultation paper warns employers to be "careful" not to lay themselves open to allegations of discriminatory employment practices.

Kevin Brown, Westminster

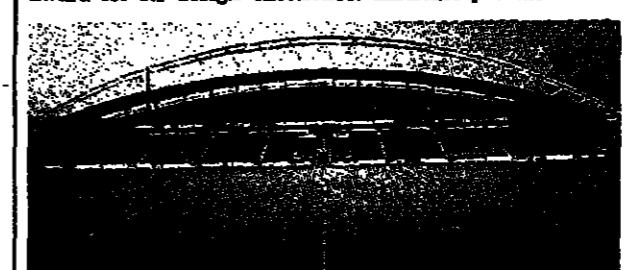
Hours cut 'boosts productivity'

The introduction of a shorter working week in the British engineering industry in recent years has not led to any direct loss of jobs but, in many companies, has led to an increase in productivity as well as greater flexibility. According to a study published today by Industrial Relations Services, the independent research organisation, a shorter working week has also enabled companies to harmonise terms and conditions of employment between manual and white-collar workers. However, eight out of 21 companies said they had suffered an increase in costs as a result of the hours reduction because of overtime payments.

Robert Taylor, Employment Editor

Architecture award for stadium

A futuristic stadium in the heart of an industrial Yorkshire town was yesterday named as the best building in Britain. The £18m (\$28.26m) Alfred McAlpine Stadium (below), home of Huddersfield's football and rugby league clubs, has won the Royal Institute of British Architects' Building of the Year award for its design excellence. Institute president Owen



Luder enthusiastically described it as "spectacular, yet straightforward," and added: "If it had been built in Nimes, Bologna or Stuttgart we would have admired it from afar and wondered why it was impossible to build such a building in Britain."

PA News

British Coal outsourcing deal

British Coal has contracted out the administration of its pensions, concessionary fuel and employers liability claims - currently handled by its Sheffield-based Centris operation - to three UK subsidiaries of AON Corporation, the US insurance broking group.

The deal, which involves the transfer of nearly 400 staff, is thought to be one of the UK's biggest financial services outsourcing exercises. The administration of pensions for more than 500,000 former British Coal employees will be taken over by Godwins. The concessionary fuel scheme, which serves almost 200,000 retired miners and widows, will be handled by Rollins Hudgill Hall. Employers liability claims will be managed by IRISC. The Centris name will be retained. AON, which has 2,000 staff in the UK, has been awarded the contracts for an initial five years.

David Wighton

Beatles' birthplace bought: On the day that the first "new" Beatles single was released, the National Trust - the charity which safeguards England's architectural heritage - announced that it had bought a former council house in Liverpool which was home to Paul McCartney's family and regarded as the birthplace of the band. The terraced house, 20 Forthlin Road, Liverpool, which was McCartney's family home for nine years, was purchased for an undisclosed price. It is the most recently built property to be acquired by the Trust - and the first connected with the pop world.



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مكتبة الامم المتحدة



Taking on the competition: Nelson Mandela presents the Rugby World Cup to South Africa's captain Francois Pienaar. Can the country win the battle against unemployment and attract substantial foreign investment?

SOUTH AFRICA

Nettles that need grasping

The challenge is to create the framework to attract substantial foreign investment and labour-intensive industries, says Roger Matthews

The South African economy has been running this year as fast as its inherited constraints will allow but as a response to the enormous pace of political change that is still far too slow.

This year's expected growth rate of 3 per cent, with a marginally higher figure likely in 1996, represents scarcely a drop in the sea of popular expectations. Growth of only 3 per cent means unemployment will keep on rising. It already stands officially at 33 per cent of the workforce but among blacks the figure for those without formal work is closer to 50 per cent.

Sustained growth of 6-7 per cent is needed, ministers and private sector economists agree, first to absorb new entrants to the job market, and then to begin making inroads into the huge pool of long-term unemployed, many of whom are unskilled and have never worked.

No statistics better illustrate the extent of the long-term challenge facing the African National Congress, its coalition partners, and the white-dominated business community. All other political, social and racial reforms may ultimately count for little if they cannot jointly create the framework that will attract substantial foreign investment and labour-intensive industries.

The ANC is sitting pretty, politically. President Nelson Mandela presides the political stage, at 77 a figure of unique moral authority whose one-nation message of reconciliation continues to blunt, if not bury, the inevitable tendencies

towards recrimination. His party, through the November 1 local elections, has increased both its share of the popular vote and its grip on the machinery of government.

As Cyril Ramaphosa, the ANC secretary-general, acknowledges, the party now has three and a half years before the next general election - and Mr Mandela's departure from the political scene - to demonstrate that it can meet some of the aspirations of the people who voted it into power in April 1994.

Building a stable platform from which to launch a brighter future has consumed much of the past 18 months. The first draft of the final constitution has been published, a mass of legislation has worked its way through parliament, including new laws on industrial relations and education, local government structures are being put in place, land reform is under way, and ministers are gradually learning the skills of bureaucratic management.

But the overall process is slow, and is weighed down by the ANC's commitment to seeking consensus, a process which can be criticised as a denial of leadership by those of Thatcherite persuasion.

In the absence of a viable alternative party of government for the foreseeable future, the ANC may already have succumbed to the twin beliefs that it can best avoid mistakes by shunning short-term solutions and that it has the political latitude to plan at its own pace for the next century. The price for such an assumption may, however, be higher than the ANC realises.

The soaring crime rate, especially in Johannesburg, where armed men now hijack vehicles in the city centre during the middle of the day, could already be inflicting long-term damage on international views of the country.

George Fivaz, the national police commissioner, said recently that murder, rape and armed theft were "threatening to rip our civilised world apart".

More than 110,000 vehicles have been stolen or hijacked in the past year, an increase of 30 per cent. Detection rates and police morale are both low, encouraging the further development of organised crime and, increasingly, the trade and consumption of narcotics. There is also growing anecdotal evidence of businesspeople abroad turning down postings in South Africa because of the unacceptably high risks.

Negative images could in turn limit the potential for tourism, where the country has a vast range of natural advantages, and a sector which remains probably South Africa's best single hope for creating large numbers of geographically dispersed jobs and checking the deterioration in the balance of payments. The ministry of tourism is currently conducting one-day workshops throughout the country, which will lead to the publication of a second green paper, probably to be followed by a white paper, and then, sometime next year, the formulation of a tourism policy.

Selecting priorities for an untried government with a plate piled high with problems was always going to be tough. It is not made easier by the dual burdens of being head of government and of the state falling on one elderly man. The case for the appointment of a prime minister responsible for the daily management of government would appear strong, and has been argued within the ANC. It is vigorously supported by some senior members, but differences over the selection of a candidate appear to have blocked further moves.

Such an appointment might also help articulate a more dynamic economic message to the rest of the world, much of which has yet to be persuaded of the warmth of South Africa's embrace for the private sector. Chris Liebenberg, the minister of finance, and Chris Stals, the governor of the

Reserve Bank, have been justly praised for their commitment to fiscal discipline, but the modest amount of foreign long-term capital coming into the country underlines how much more vigorously South Africa needs to sell itself abroad.

Even the success of fiscal policy may be open to question, with Mr Liebenberg accepting that the budget deficit, as a percentage of gross domestic product, may this year fail to hit its 5.3 per cent target. This will, in turn, swallow more of the already low level of domestic savings and reduce further what is available for private and public sector investment.

Government debt already absorbs nearly one in five rands collected by the creaking revenue machinery, and the demands on expenditure are still subject to unexpected items popping out of the post-apartheid woodwork. Such strains may well intensify as inexperienced local authorities struggle, and sometimes fail, to keep within their own budgetary limits. All of this allows the government very little economic leeway, and, with the rand now fully subject to international pressures, places a greater premium on maintaining internal political stability.

Apart from the occasional sharp exchange, the government coalition has held together well. Its Achilles' heel, and that of the country more generally, is the volatile situation in KwaZulu/Natal, and relations between the ANC and the mainly Zulu Inkatha Freedom Party, headed by Chief Mangosuthu Buthelesi, the minister of home affairs.

More than 100 people die most weeks in the province as a result of criminal and political violence, and relations between the ANC and IFP show no sign of improvement. Disputes over electoral boundaries and the future role of traditional leaders forced the postponement of local elections on November 1, and in the present climate it is difficult to see how they will be successfully staged on March 27.

Perhaps even more hazardous would be an election result that gave the ANC control of the largest urban areas. Chief

IN THIS SURVEY

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Editorial production: Roy Terry

Buthelesi has said the poll will be an issue of life or death for the IFP, with defeat opening the way to more violence, and victory to the autonomy of the province, neither of which is acceptable to the ANC.

Resolving that issue and many others will require patience, a virtue with which the ANC appears well endowed. It has refused to be rushed into decisions, which means it has made relatively few mistakes. While the ANC's confidence is growing, its political opponents have yet to regroup, and the international climate remains generally benign.

What the ANC needs to demonstrate is a readiness to grasp the immediate nettles which could adversely affect its ability to deliver longer-term social and political goals.

Looks like we struck gold again

earning growth

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ANGLO 100 YEARS

beginnings go back 100 years to two gold mining companies. Their vision still inspires our mission: to build a leading world-class mining and metal company.

Today, this vision appears closer than ever. In 1995, attributable income exceeded R1 billion. Earnings per share grew 63%. Newly acquired Billiton made a significant contribution to the group. And the Columbus stainless steel and the Alusaf aluminium projects, two of the largest single site ventures in the world, are now on-stream.

As for tomorrow? The first hundred years have been good. The next hundred years will be even better.



Cape Town is one of South Africa's main tourist attractions and is making a bid for the 2004 Olympics

■ Tourism: by Scheherazade Daneshkhu

Rich new seam opens up

South Africa is becoming one of the world's most popular tourist destinations

When gold and diamonds were discovered in South Africa during the nineteenth century, people from many other lands were attracted to its shores. Today, the government hopes that South Africa will once again be a magnet for visitors from abroad, but as tourists rather than gold-diggers.

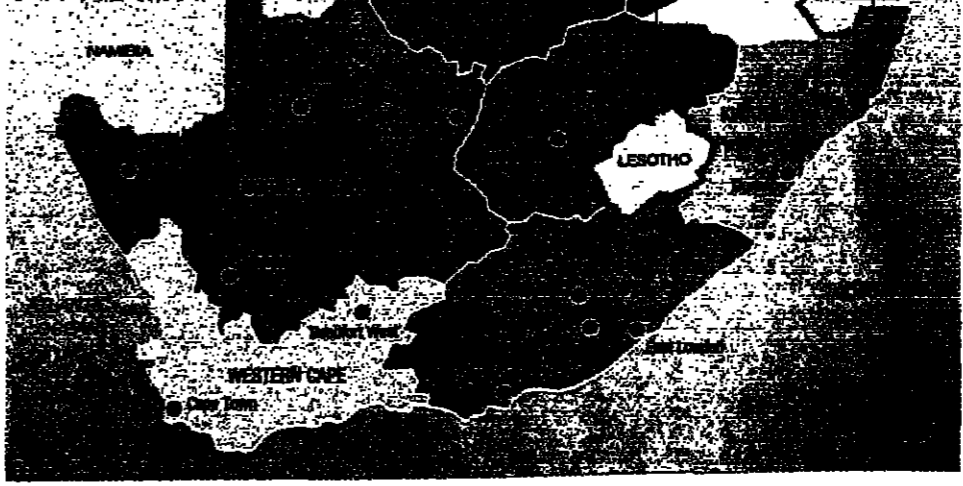
Tourism is South Africa's fourth largest foreign exchange earner generating R7bn last year, but Mavuso Maimane, executive director of the South African Tourism Board, says the government's aim is for tourism to overtake the mining industry, currently the largest contributor, within four years.

Last year 3.7m people arrived in South Africa from abroad, an 18 per cent increase on the previous year, making South Africa the second most popular tourist destination on the African continent after Tunisia.

The tourism board expects 4.2m visitors this year, a 14 per cent increase on 1994, a figure that has been bolstered by the staging of the Rugby World

Province	Population	GDP as a % of GDP
NORTHERN PROVINCE	5.40m	R10.5bn 3.8%
NORTH WEST	3.35m	R15.8bn 5.6%
GAUTENG	7.06m	R103.8bn 37.4%
MPUMALANGA	3.01m	R23.3bn 8.4%
NORTHERN CAPE	0.74m	R5.9bn 2.1%
FREE STATE	2.78m	R17.6bn 6.3%
KWAZULU-NATAL	8.71m	R41.5bn 14.9%
WESTERN CAPE	3.72m	R26.8bn 9.7%
EASTERN CAPE	0.48m	R21.0bn 7.6%

Population as at June 30, 1995
* = Gross geographical product (1991)



Cup in May. Dawie de Villiers, minister for tourism and the environment, wants to see these numbers up to 4.5m by

the end of 1996 and to 8m by 2000.

The sharp growth of the industry began five years ago when sanctions against South Africa were gradually lifted after the release from prison of Mr Nelson Mandela, leader of the African National Congress.

There is much lost ground to be made up, however. Despite the growth in visitor numbers, tourism contributed 3 per cent to the gross national product last year, well below the world average of 10 per cent. Less than 4 per cent of the workforce is employed in tourism, compared with a world average of 7 per cent.

With almost half the adult population out of work, the government sees job creation as the main benefit. Every 30 new tourists are estimated to create one direct and two indirect jobs.

The industry is also seen as a potential contributor to the government's reconstruction and development programme, earning valuable foreign exchange and stimulating private sector investment in infrastructure services such as roads, water and electricity facilities.

However, the industry's growth is threatened by a number of factors, of which violence heads the list.

Political violence in the province of KwaZulu Natal and crime in central Johannesburg have increased in recent months and the government has responded by laying plans for a special police unit to combat crime against tourists.

There are signs, too, that the country's infrastructure may not be able to cope with increased demand unless there is considerable investment to expand facilities.

Johannesburg International airport is the gateway to the country, yet despite a recent upgrading, it is still small and lacks gate departure lounges.

Cape Town is one of the main tourist attractions and is making a bid for the 2004 Olympics. Gordon Oliver, chief executive of the Cape Tourism Authority admits, however, that Cape Town's airport was an "embarrassment" until eight months ago when services were substantially improved. It is scheduled to have a new international ter-

minal within the next few years as well as a new conference centre.

There is also considerable room for improvement in the provision of good quality services. Studies of the lessons of the Rugby World Cup prepared for the South African tourism board found that although tourists rated service at restaurants, hotels and car hire companies as good, they thought service at fast food outlets was poor, and were unimpressed by public transport and taxis. There is also an acute shortage of luxury coaches.

Mr Maimane says that one of the greatest challenges is that of promoting a tourism culture and involving the black and Asian populations. "Unfortunately tourism is looked on by a lot of people as an elitist industry," he says. Most of the country's hotels and game lodges, for example, are owned by whites. "If tourism is to be sustainable, the large bulk of people who are left out should be brought in - not simply as providers of labour - but as investors, otherwise there will be instability."

One way of doing this, he says, would be to stimulate entrepreneurship in areas outside the traditional nature-based attractions, such as townships and the Indian community in Durban, home to one of the largest Indian communities outside India.

Mr Ousmane N'Diaye, the World Tourism Organisation's regional representative for Africa, earlier this year tried to allay the fears of some of Africa's traditional tourist markets, such as Kenya, worried by South Africa's competitive threat.

While South Africa's strong position on the continent might take away business and international tourism from other African states, he also expected its economic power to have a positive effect on its neighbours.

These effects would include a spillover of increasing numbers of international tourists to other parts of southern Africa; increased business travel stimulated by South Africa's expanding economy; and greater travel, as a result of growing wealth, by South Africa's newly empowered black community.

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THE CUTTING EDGE OF THE NEW SOUTH AFRICA

KEY FACTS

Area	1,221,037 sq km
Population	41.24m (1995 estimate)
Head of state	President Nelson Mandela
Currency	Rand (R)
Average exchange rates	1994 \$1=R2.549; 13/11/95 \$1=R2.635 1994 £1=R5.442; 13/11/95 £1=R5.689

ECONOMY

	1994	1995*
Total GDP (\$bn)	121.9	133.3
Real GDP growth (%)	2.3	3.0
GDP per capita (\$)	3,004	3,217
Components of GDP (%)		
Private consumption	57.7	
Government consumption	19.7	
Exports	20.8	n.a.
Imports	27.5	
Consumer prices (% pa)	-25.8	
Real ind. output (% pa)	9.0	10.2
Reserves minus gold (\$bn)	1.3	2.9
3 month TB rate (%)	1.7	1.7
Long bond yield (%)	11.0	13.8
FT-A index (% change over year)	14.7	14.9
Current account balance (\$bn)	+19.7	-0.2
Exports (\$bn)	-0.6	-1.6
Imports (\$bn)	25.1	26.2
Trade balance (\$bn)	21.4	23.5
Export volume of goods (% pa)	3.7	2.7
Import volume of goods (% pa)	0.8	4.0
Total foreign debt (\$bn)	15.2	12.0
Main trading partners (1994 %)		
US	27.9	n.a.
Japan	4.9	16.2
Asia excluding Japan	4.6	10.2
Africa	9.8	10.2
EU	9.5	2.8
	21.2	48.7

* = EU estimates for 1995 except reserves (end-September), interest rates (end-October), stock market (% change from 31/12/94 to 31/12/95)

Source: Department of Finance, Economist Intelligence Unit, BAF, Deloitte

Text of a letter by R W Rowland, the second largest Shareholder in Lonrho, being sent to all Lonrho Shareholders

LONRHO-IMPALA PLATINUM MERGER

DOES IT ADD UP?

20TH NOVEMBER 1995

Dear Lonrho Shareholder,

The Board of Lonrho proposes a merger of its platinum assets with a competitor, the Impala platinum mines, which are owned by Gencor. Lonrho would receive shares in Implats, a subsidiary of Gencor. The Lonrho platinum mines in South Africa are the company's major asset, and for this reason your vital interests as an investor are concerned. As Lonrho shareholders, you have financed the platinum mines from their inception, and should reap the benefit.

In broad terms, Lonrho's platinum mines are young and healthy, excellently managed and South Africa's lowest cost producers. Impala is bigger, but is in more difficult ground and is less cost efficient. Impala is also an older mine and part of a group which has already mothballed two platinum mines. In the past few years Lonrho has received varied offers from Gencor to take over Lonrho's platinum Division. It's hardly surprising.

The Lonrho Board has now published the terms for an agreed merger. These terms are not good enough, when it is realised that as formulated they result in:

- 1 A price far less than that envisaged by stockbrokers and analysts in the past two years.

- 2 Loss of ultimate control of Lonrho's biggest asset.
- 3 Loss of Lonrho's central attraction for outside investors or bidders.
- 4 Loss of direction at Lonrho, which promised to expand and support its core activities, specifically mining.
- 5 Exclusion worldwide from any further platinum dealing or mining by Lonrho.
- 6 Vulnerability to 'creeping control' by Gencor. In my opinion, further purchases of a major block of Lonrho shares would, combined with this merger, put Gencor in control of Lonrho without a full offer.

In commenting on the terms, I rely on forty years of negotiating experience in the mining industry of Southern Africa as a mine owner, as a director of Rio Tinto companies, and at Lonrho where I remain the second largest shareholder. There can be no objection to the right deal for Lonrho.

It is my firm belief that this is the wrong deal and should be voted down in the interest of Lonrho and its shareholders.

Listed below are the material difficulties which need to be explained by the Board before the EGM on 30th November, if shareholders are to reach an informed decision.

Yours sincerely
R W Rowland

WHAT WILL THE REALIZED VALUE OF THE LONRHO PLATINUM DIVISION (LPD) BE FOR LONRHO AND ITS SHAREHOLDERS IN THE PLATINUM MERGER?

£402m

On page 3 of their circular the Board of Lonrho assigns a value of about £402 million for the 29,168,425 shares of Implats that Lonrho finally expects to receive for the Lonrho Platinum Division.

£40m shareholder loans

Lonrho has shareholder loans of £46 million to LPD. According to the public Implats statement 'Lonrho will cede to Implats its claims on loan accounts against LPD amounting to R262.8 million.' (£46 million).

Is this an amount the shareholders have to deduct from the stated value of £402 million? If yes, this is a large sum to forego and against what is the cession made?

£3m giving up a claim

Did the Board in its calculations deduct the value of the R204 million claim by Lonrho against Implats/Impala over the Kame Mine deal? This claim is well founded and was strongly supported by the Board of Lonrho. Did the Board take the advice of an independent mining specialist and legal counsel before giving up a claim of £36 million as a concession to Implats in this merger?

Dividends

On page 3 of the circular the Board says: 'Dividends have not been paid by LPD to Lonrho for several years, because of constraints imposed by the working capital and capital expenditure requirements of LPD.'

Did the Board take into account that Lonrho is replacing a cash flow (which can be regarded as a dividend payment) of between 25-10 million annually in interest payments on the shareholder loans to LPD, with an insecure cash flow from dividends?

Is it correct to say that prospective dividends from Implats would be subject to 25% taxation in South Africa, whereas the interest payments are tax free for Lonrho and tax deductible to LPD in South Africa?

Does Lonrho have a guarantee from Implats for about £10 million payment of dividends before taxes, or not?

Value capped by Put Option

Did the Board consider that the realised equity value is limited by the Put Option to R74 per share, compared to a stated value of R77.5-R80 per share in the initial merger. Would this lower the sale price for Lonrho's Implats shareholding by between £18-£31 million?

Is it not correct that the claim of the Bafokeng tribe, (see below) which would lead to the Put Option being exercised, is serious and therefore the execution of the Put Option is a real possibility?

Morgan Grenfell

Does the stated £402 million value to Lonrho reflect the value established by Lonrho's merchant bank Morgan Grenfell, which advised Lonrho in this merger? If yes, why does Morgan Grenfell not support this merger by a full recommendation to Lonrho's shareholders in Lonrho's circular about the merger?

The circular contains a long technical report on the present state of the mines. Despite 'extensive due diligence' enquires the circular does not contain anything from Morgan Grenfell.

Could Lonrho's shareholders have sight of Morgan Grenfell's advice and recommendation, and be told the value it has established from Lonrho's Platinum Division?

Cash

Is it correct to assume that the legal, technical and merchant banking costs are still to be deducted from the stated benefit to Lonrho's shareholders?

DOES THE BAFOKENG TRIBE'S CLAIM PERMANENTLY LIMIT THE ESTABLISHED VALUE TO R74 PER SHARE?

Senior Counsel

Did the Board consider the concern (page 44 of the circular) of the technical consultant over the claim of the Bafokeng tribe, which could lower the value of the Implats group by a significant amount? If yes, who is the senior counsel in Johannesburg who advised Lonrho '... that the probability is that any such action will fail...?' (page 84 of the circular)

Surely one line cannot accurately represent his entire opinion bearing in mind the likely legal, factual, and constitutional complexity of the claim. Did he qualify his opinion in any way or offer specific advice to the Board?

Will Lonrho shareholders be able to see the written comment of the senior counsel or at least a précis of it, and if not, why not?

7% equity in the tribe

Is the Board of Lonrho aware that Implats offered the Bafokeng tribe the right to subscribe for 7% of the equity of the Implats Group during the years 1990-1994, as stated in the annual reports of Implats from 1990-1994?

Did the Board of Lonrho and merchant bank Morgan Grenfell consider this factor and how would the possible concession of these rights or any other financial claim by the tribe affect the value of Lonrho's equity stake in this merger?

Net value

As outlined in an article by South African Business Day, dated 14th November 1995, the claim of the Bafokeng tribe seems to have substance.

Why does the Board of Lonrho enter into a merger of its major asset where the probability of a claim against the merger partner, whether successful or not, is high and imminent?

Would Lonrho then only be able to realize a maximum net value of around £330 million for its Lonrho Platinum Division, whereas Lonrho's chief executive earlier this year helped analysts of the City to establish a value for Lonrho's 72.39% interest in LPD in the range of £450-500 million?

The maximum price of R74 per share as a result of an execution of the option would enable Gencor to take over LPD for a far lower price than they would have to pay as a direct offer.

Advice

Has the Board of Lonrho approached the legal advisers of the Bafokeng tribe in order to assess the position of their claims, before entering into this agreement?

Is it correct that the Bafokeng tribe claim, which affects most of the mining rights of Implats, is fully prepared and ready to be issued? Why is the Board not waiting for the outcome before merging the mines?

WHAT ARE THE BENEFITS AND THE SYNERGIES OF THE MERGER?

What the Board says

The following is an extract from page 5 of the circular:

'... believes that the mergers will provide the following benefits to Lonrho shareholders:

- it will allow more rapid and extensive development of LPD's assets. The development of LPD's operations has been constrained for some time by high levels of borrowing; the enlarged Implats will have low borrowing;

- it will produce a number of operational improvements arising, in particular, from the sharing of mining and processing techniques. In the short term, however, mining synergies are likely to be balanced broadly by the costs of achieving them. In the medium and longer term, the Directors believe that there will be substantive benefits for Implats shareholders, including Lonrho.

Capital Expenditure

Is it correct (page 24) that the platinum production 'with minimal capital expenditure, the platinum output of LPD can be increased rapidly to a level of some 600,000 oz from the 1995 achieved level of some 350,000 oz, and that the proposed increase in platinum production to 770,000 oz per annum by the year 2001 will be achieved with a planned capital expenditure of additional R168 million over the next years, which means an improvement of 250,000 oz per annum from the 1995 achieved level of some 350,000 oz?

Efficiency

Is it equally correct that Implats would achieve an improvement of nearly the same size (240,000 oz per annum) with a capital expenditure program of R627 million, only over the next 3 years?

2 1/2 times the costs

Where is the capital expenditure benefits to LPD if Implats, expansion program for the same increase in production costs 2 1/2 times more than that of LPD and the planned capital expenditure program of LPD could be financed by the cash flow at present without the need for further capital?

Synergies?

Production costs 20% lower at LPD

Based upon the annual reports from Implats, it is obvious that the production cost in R/kg of platinum group metals 'pgm' from the smelter has risen from 19,000 in 1991 to 27,000 in 1993 (page 31), whereas the production cost at LPD has not risen from 1991 to 1995 and is at about 21,589 R/kg of pgm in 1995 (page 16).

LPD's production costs are 20% lower than those of Implats.

Operating costs 22% lower

The planned operating cost per oz at LPD for the year 2000 are projected to be 666 R per oz whereas at Implats they are projected to be 811 R per oz, which is a cost difference of 22% in favour of LPD.

Since 1978 LPD has steadily increased output in each and every year, whereas Implats records volatile production levels with 1995 lower than most recent years. (page 31).

On page 12 of the circular the technical consultant says: 'Upon completion of the merger a team will be constituted to review the synergistic opportunities available to the merged entity and to make proposals to the board regarding the means by which they can be realised.'

Can it be that the Board of Lonrho has not assessed the potential synergies of integrating 'the lowest cost primary underground producer' LPD with the high cost producer Implats before proposing the merger to Lonrho shareholders?

Reserves

The technical report states on page 23:

'Lonrho Platinum Division has substantial shallow reserves.'

In fixing the price for LPD, did the Board of Lonrho and the merchant bank Morgan Grenfell reflect the significant added value of these reserves, which can be extracted at the lowest cost in the industry?

If yes, what is the value given to these reserves by Morgan Grenfell, the company's merchant bank?

1995 accounts

Why does the Board not make the 1995 figures of LPD available to Lonrho shareholders in order to enable them to compare LPD's figures with those of Implats for 1995?

Other offers

Did the Board consider a potential bid from the major platinum producer Anglo/Rustenburg and did Lonrho's merchant bank Morgan Grenfell approach them in order to establish the highest possible value for Lonrho's 72.59% stake in the Lonrho Platinum Division? If not, why not?

The technical consultant notes that LPD's expansion programmes are highly capital efficient. Lonrho is certainly not under financial pressure.

Until eight months ago all Lonrho directors with relevant experience and the entire South African management were opposed to a Gencor merger.

What rationale is there for giving up Lonrho's best stand-alone asset for a price which, after all the deductions and risks are considered, appears to be no more than £500-£550 million?

SUFFICIENT INFORMATION

Fairness

Why has the Board of Lonrho refused to give enquiring shareholders copies of the relevant published documents, thus depriving them of the opportunity to properly evaluate the effect of the transaction on the Company?

How can shareholders evaluate the transaction if the only way that they can inspect the 2,000 or so A4 sheets of published documents is by poring over them in the company solicitors' offices during the 8 working days that remain before the EGM?

Clear view

What inconsistencies or drawbacks would be clear from these documents if shareholders' professional advisers had a proper opportunity to review them?

A proper and open evaluation before the EGM will help us all to get this vital deal right.

Response: If you share the concerns expressed in this advertisement contact Lonrho's company secretary and attend the EGM on 30th November.

ASK YOUR ADVISERS TO EVALUATE THE DEAL CAREFULLY AND ACT ON THEIR ADVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	%	High
Govest High Inc.	2000	78 1/2	—	84
Warrants		5 1/2	—	18
Govest Oriental	1000	300	—	361
Govest Strategic	1000	250	+2	293
Growthco	400	4 1/2	+1	423
Growthco Income	1000	8	—	10
Group Div	400	46	—	50
Warrants		14	—	29
HTF Japanese Smk.	1000	88 1/2	—	107
Warrants		28	+2	52
Hydrex Highland	1000	184	—	200
Warrants		22 1/2	—	26
Int'l. Inc.	1000	220	—	262
Int'l. Inc. Bonds	1000	129	+1	129
Int'l. Inc. Trst.	1000	50	—	50
Int'l. Inc. Trst.	1000	83	+1 1/2	108

INV TRUSTS SPLIT CAPITAL

[illegible]

MH Smaller Co's.—see 1
MH Southern Acad.—see 1

[illegible]

Model	Price	+ or -	1995
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[illegible]

هكذا من الامل

ANN - Cont

[illegible][illegible]

- BK Montreal
- BK Above Scott
- BC Gas
- BCI
- Redback Field
- Brancoati
- Camp Imp/BK
- Camp Pacific
- Soc Deth
- Dow
- Echo Bay
- Gulf Can
- Innovative Sls
- Vancouver Bay
- Imperial Oil
- Inco
- Alma Corp Alberta
- Alma
- Royal Bk Can
- Toronto-Dan
- Trans Can Pipe

SOUTH A

M

- Anglo Am Iron
- Gold Fields P/R
- NK Prop.
- SASOL
- SAB Brown
- South African Bank
- Tiger Oils
- Tongaat-Hulett

[illegible][illegible]

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هكذا آمن الرجل

WORLD STOCK MARKETS

[illegible]

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

MARKET SUMMARY		MARKET SUMMARY	
NYSE Composite	10,234.56	NYSE Composite	10,234.56
Dow Jones Industrial	9,876.54	Dow Jones Industrial	9,876.54
S&P 500	1,234.56	S&P 500	1,234.56
NASDAQ Composite	2,345.67	NASDAQ Composite	2,345.67
NYSE Volume	1.2B	NYSE Volume	1.2B
Dow Jones Volume	0.8B	Dow Jones Volume	0.8B
S&P 500 Volume	0.5B	S&P 500 Volume	0.5B
NASDAQ Volume	0.3B	NASDAQ Volume	0.3B
NYSE Open	10,100.00	NYSE Open	10,100.00
Dow Jones Open	9,750.00	Dow Jones Open	9,750.00
S&P 500 Open	1,200.00	S&P 500 Open	1,200.00
NASDAQ Open	2,300.00	NASDAQ Open	2,300.00
NYSE High	10,300.00	NYSE High	10,300.00
Dow Jones High	9,900.00	Dow Jones High	9,900.00
S&P 500 High	1,250.00	S&P 500 High	1,250.00
NASDAQ High	2,400.00	NASDAQ High	2,400.00
NYSE Low	10,000.00	NYSE Low	10,000.00
Dow Jones Low	9,650.00	Dow Jones Low	9,650.00
S&P 500 Low	1,150.00	S&P 500 Low	1,150.00
NASDAQ Low	2,200.00	NASDAQ Low	2,200.00
NYSE Close	10,234.56	NYSE Close	10,234.56
Dow Jones Close	9,876.54	Dow Jones Close	9,876.54
S&P 500 Close	1,234.56	S&P 500 Close	1,234.56
NASDAQ Close	2,345.67	NASDAQ Close	2,345.67

MARKET SUMMARY		MARKET SUMMARY	
NYSE Composite	10,234.56	NYSE Composite	10,234.56
Dow Jones Industrial	9,876.54	Dow Jones Industrial	9,876.54
S&P 500	1,234.56	S&P 500	1,234.56
NASDAQ Composite	2,345.67	NASDAQ Composite	2,345.67
NYSE Volume	1.2B	NYSE Volume	1.2B
Dow Jones Volume	0.8B	Dow Jones Volume	0.8B
S&P 500 Volume	0.5B	S&P 500 Volume	0.5B
NASDAQ Volume	0.3B	NASDAQ Volume	0.3B
NYSE Open	10,100.00	NYSE Open	10,100.00
Dow Jones Open	9,750.00	Dow Jones Open	9,750.00
S&P 500 Open	1,200.00	S&P 500 Open	1,200.00
NASDAQ Open	2,300.00	NASDAQ Open	2,300.00
NYSE High	10,300.00	NYSE High	10,300.00
Dow Jones High	9,900.00	Dow Jones High	9,900.00
S&P 500 High	1,250.00	S&P 500 High	1,250.00
NASDAQ High	2,400.00	NASDAQ High	2,400.00
NYSE Low	10,000.00	NYSE Low	10,000.00
Dow Jones Low	9,650.00	Dow Jones Low	9,650.00
S&P 500 Low	1,150.00	S&P 500 Low	1,150.00
NASDAQ Low	2,200.00	NASDAQ Low	2,200.00
NYSE Close	10,234.56	NYSE Close	10,234.56
Dow Jones Close	9,876.54	Dow Jones Close	9,876.54
S&P 500 Close	1,234.56	S&P 500 Close	1,234.56
NASDAQ Close	2,345.67	NASDAQ Close	2,345.67

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S&P 500 Close	1,234.56	S&P 500 Close	1,234.56
NASDAQ Close	2,345.67	NASDAQ Close	2,345.67

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Chill wind on the River Danube

Anthony Robinson and Virginia Marsh say Hungarians are facing the harsh truth that they must stop living beyond their economic means

It has been a year for shedding illusions and slaughtering sacred cows. The "goulash communism" which made Hungary a byword for relative prosperity under the old regime was financed by foreign debt. The first democratically-elected government inherited a bloated social security system, but lacked the strength to cut it. But earlier this year a socialist-led government introduced a tough austerity package which obliged Hungarians to face the harsh truth: for decades they lived beyond Hungary's means.

This is a bitter pill for millions of Hungarians who live on or around an average national income of \$300 a month and for whom the last five years brought unprecedented economic change and social insecurity.

Yet they have been obliged to accept an 11 per cent cut in real wages this year, and another 3 to 4 per cent decline is planned for 1996. This follows an emergency economic, financial and exchange rate package introduced in March.

Its aim was to neutralise a substantial rise in real incomes prior to the 1994 elections, reverse a dangerous widening of the trade and current account deficits and head off the risk of a potential domestic and foreign debt trap arising from inflationary pressures and rising interest rates.

By autumn the statistics were beginning to show that the politically fraught package was having the desired effect. Exports, in particular, responded well to an effective

21 per cent devaluation over the first half of the year. Higher investment has also helped to compensate for lower consumer demand, which in turn has led to a slackening in the increase in imports and an easing in pressures on the domestic economy. Inflation and interest rates have started to decline.

But the longer term success or failure of the austerity package is still in question. The outcome depends on the willingness of labour and the trade unions to accept the one-off cut in living standards imposed by the March package, and on the ability of a Socialist-Free Democratic coalition government, led by Mr Gyula Horn, the Socialist Party prime minister, to follow up with a radical reform of the entire social security and health system. These promised reforms are the key element in a strategy to cut government spending, lower interest rates, and hence reduce the cost of financing a near-crippling level of domestic and foreign debt.

A recent OECD report on social and labour market policies in Hungary highlighted the need to reform an old age and disability pension system which accounted for 11 per cent of GDP in 1993, and to revise a family allowance system which accounted for another 5 per cent.

In the March package the government cut some social payments, introduced income-related fees for some previously free educational and health services and underlined its commitment to broader structural reforms which will target payments and services on the most needy elements of the population.

Some measures were subsequently struck out by the constitutional court, which argued that cuts in benefits announced with so much speed and such little warning in March were unconstitutional and badly drafted.

The 1996 budget, which is being drawn up to conform with targets agreed with the International Monetary Fund, including a budget deficit set to fall below 4 per cent of GDP, compared with 9.5 per cent in 1994, will restore the income lost by the constitutional court ruling. But it will not soothe the ruffled feathers of a trade union movement which is at its strongest in the still state-controlled areas of the economy.

Civil servants, teachers, health-workers and other public sector workers have seen their incomes and social prestige fall since the collapse of socialism. But their numbers have continued to increase. Crucially, it was their votes which brought the socialists back to power in 1994.

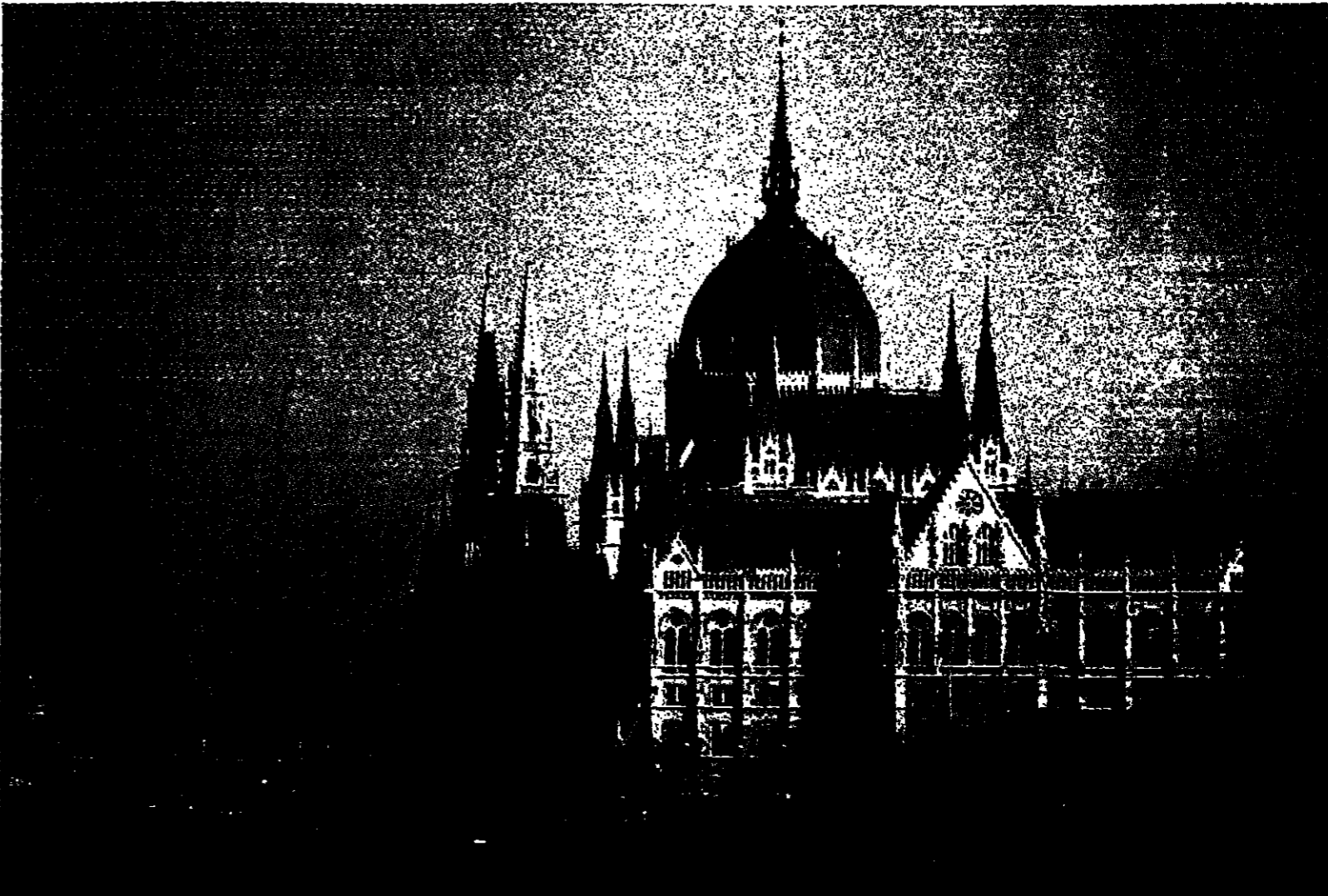
Mr Sandor Nagy, Hungary's main trade union leader, helped to marshal votes for the socialist cause.

Now, after retiring from the union movement, he stands as a somewhat ambiguous figure, uncertain whether to accept a senior government post, if one were offered, or to stake out his position as a future alternative leader of the left.

Mr Horn, meanwhile, appears to be willing to face up to his internal party critics and persevere with structural reforms and privatisation in the hope that these measures will transform the economy and start to pay political dividends before the next elections in 1998.

"To appreciate what we have done you must realise that we have abolished what Hungarians grew up to accept as sacred rights," says Mr Horn, a veteran reform communist who led his revamped Socialist party to victory in the 1994 elections but is now widely accused of adopting "Thatcherite" anti-welfare policies and rapid privatisation.

Mr Lajos Bokros, the former banker who became finance



The parliament building on the bank of the River Danube, where the Hapsburg splendour of old Budapest still shines

Pictures: Victor Mauer

minister in March when Mr Gyorgy Suranyi was also appointed to a key financial role as governor of the central bank, is even more blunt. "The historic task of the Socialist government is to roll back the frontiers of the welfare state," he says.

A reduction of the state's role in the economy and society is not what many voters thought they were voting for in last year's elections. But Mr Horn points out that economic and social reform was put on the agenda by Hungary's reform communists before the collapse of Soviet hegemony over central Europe.

"We realised that the standard of living was being artificially supported by foreign loans and initiated the economic reforms which would have allowed Hungary to pay

its way," he said in an interview.

After the collapse of communism, power passed into the hands of the conservative Hungarian Democratic Forum government in 1990. But a government attacked by the left for being hard hearted and uncaring was actually too inhibited by such criticism to make the cuts in social welfare, or proceed sufficiently quickly with privatisation to cut the size and cost of the Hungarian public sector.

A difficult year lies ahead, but there is light at the end of the tunnel. Two decades of foreign borrowing have saddled Hungary with the highest per capita debt in the former communist world. At the same time it acquired a formidable reputation for sophisticated debt management and excel-

lent contacts in financial markets.

Familiarity with western financial markets, and nearly two decades of cautious market-oriented reforms, gave Hungary a significant advantage over other former communist countries in the search for foreign equity capital to modernise the economy and re-integrate Hungary into world markets. As a result over \$10bn in private equity investment has flowed into Hungary over the last five years, nearly half the estimated \$22bn which has come into the region since 1990.

More than 30 of the top 50 multinational companies have made investments here. Some, such as the US General Electric corporation, which took over Tungsram and chose Hungary as a base for its global

electric light manufacturing activity, have also spotted the opportunity to make the country a base for research and development work. German companies, such as Audi, assemble high tech components in state-of-the-art factories in western Hungary, able to run 24 hours a day seven days a week, and staffed by highly trained engineers and technicians.

Thanks to such investment, much of it on greenfield sites, and to big structural changes in former state-owned companies privatised by direct sale to strategic investors, Hungary's industry has undergone significant change at the micro-economic level.

Productivity in industry is estimated to have risen around 50 per cent over the last three years through the closure or

revamping of former state-owned loss-makers and the efficiency gains from new technology and managerial methods. The partially privatised telephone system is improving by the month and new motorways ring the capital Budapest and connect it with the Austrian capital, Vienna, 300km to the west.

This year's painful shift in resources from personal disposable incomes to the state treasury and from domestic consumption to exports is already showing through in higher exports and lower inflation. Investment is rising and economic growth is continuing. If the government keeps its nerve, and the unions keep their cool, Hungary could be well on the way to sustainable growth before next year is out.

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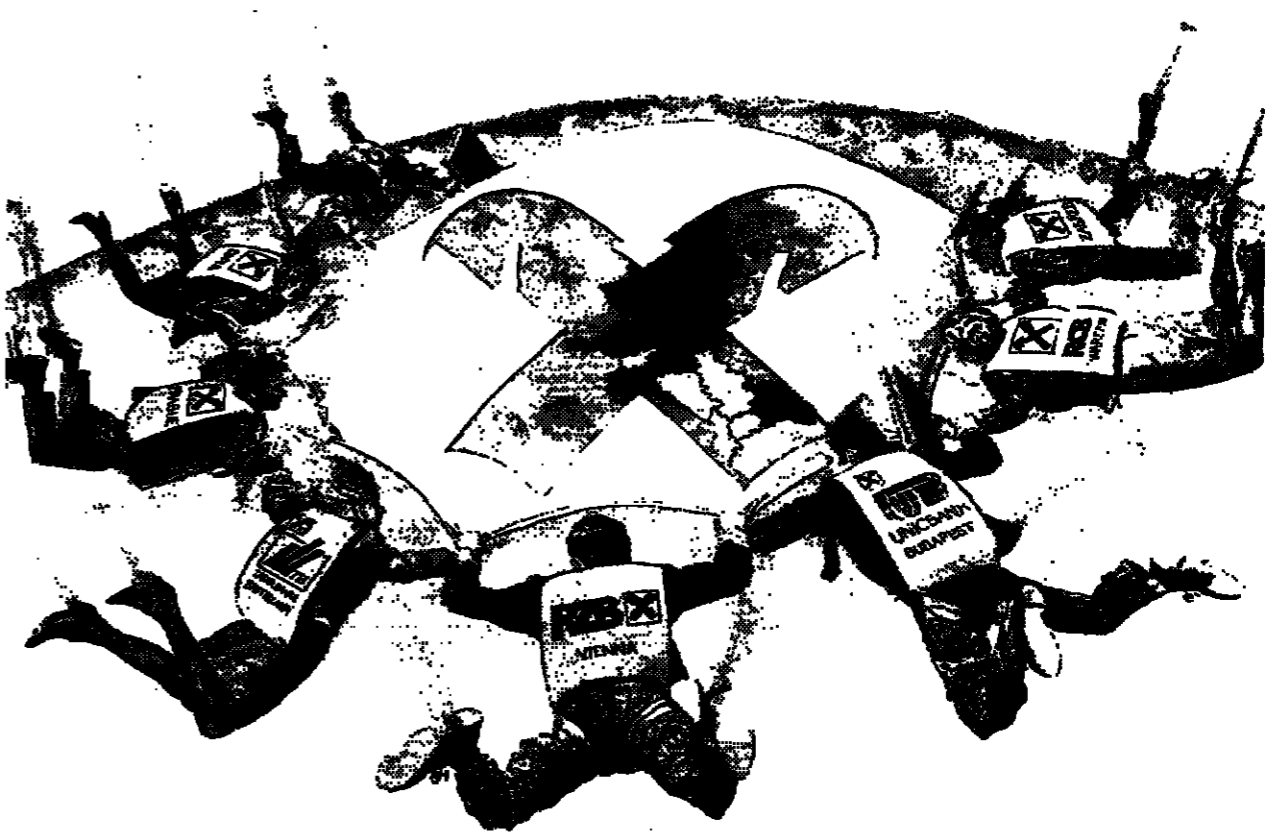
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